

Babcock Corporate Services Limited

Annual report

For the year ended 31 March 2016

Company registration number:

04415588



Babcock Corporate Services Limited

Directors and advisors

Current directors

I Urquhart
F Martinelli
K Goodman
W Mason
S Parker

Company secretary

Babcock Corporate Secretaries Limited

Registered office

33 Wigmore Street
London
W1U 1QX

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place
London
WC2N 6RH

Babcock Corporate Services Limited

Strategic report for the year ended 31 March 2016

The directors present their Strategic report on the Company for the year ended 31 March 2016.

Principal activities

The principal activity of the Company is to provide IT services to fellow subsidiaries.

Review of the business

	2016 £000	2015 £000
Revenue	49,701	45,703
Profit for the financial year	1,691	3,605

Over the course of the year, the Company's core business activities continued to perform in line with expectations.

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks and uncertainties. These are managed through the operational review process supplemented at Group level by independent challenge and review by the Group Risk Manager and the Audit and Risk Committee.

Further discussion of these risks and uncertainties, in the context of the Group as a whole, is provided on pages 64 to 74 of the annual report of Babcock International Group PLC, which does not form part of this report.

Future developments

There are no plans to alter significantly the business of the Company.

Key performance indicators

Given the straightforward nature of the business, the Company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the Company.

By order of the board



I Urquhart
Director

13 September 2016

Directors' report for the year ended 31 March 2016

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2016.

Dividends

No final dividend for the year ended 31 March 2016 has been provided by the directors (2015: £nil). No interim dividends were paid for the year ended 31 March 2016 (2015: £nil).

Future developments

Information on the future developments of the Company can be found in the Strategic report.

Financial risk management

The Company's operations expose it to a variety of financial risks that include the effects of changes in credit risk, liquidity risk and interest rate risk. The Company has in place a risk management programme that seeks to limit adverse effects on the financial performance of the Company by monitoring levels of debt finance and the related finance costs.

Given the size of the Company, the directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the board. The policies set by the board of directors of Babcock International Group PLC are implemented by the Group and Company's finance departments. The department has a policy and procedures manual that sets out specific guidelines to allow it to manage interest rate risk, credit risk and circumstances where it would be appropriate to use financial instruments to manage these.

Credit risk

Cash and bank balances are held with banks that have been assigned satisfactory credit ratings by international credit rating agencies.

Liquidity risk

The Company retains access to pooled cash resources to ensure it has sufficient available funds for operations. The Company also has access to longer term funding from its ultimate parent undertaking if required.

Interest rate cash flow risk

The Company has both interest-bearing assets and interest-bearing liabilities. The interest-bearing assets earn interest at a floating rate. Interest-bearing liabilities accrue interest at a floating rate. The Company does not use derivative financial instruments to manage interest rate costs and, as such, no hedge accounting is applied.

Directors' report for the year ended 31 March 2016 *(continued)*

Directors

The directors who held office during the year and up to the date of signing the annual report were as follows:

I Urquhart
F Martinelli
K Goodman
W Mason
S Parker
A Dungate resigned 24 June 2016
P Rogers resigned 31 August 2016

Safety policy

The Company recognises the promotion of health and safety at work as an important objective. It is Company policy to take steps to ensure, as far as reasonably practical, the health, safety and welfare of the employees of the Company.

Environment

The Company recognises its responsibility to minimise so far as reasonably possible the potential for adverse impacts from its operations. It aims to achieve the highest standards in environmental management and seek accreditation to appropriate standards where appropriate.

The Company has developed and implemented an environmental policy to ensure that the impact of its activities on the environment is limited to the minimum practicable level.

Statement of directors' responsibilities

The directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

Directors' report for the year ended 31 March 2016 (continued)

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify the Company's shareholders in writing about the use of the disclosure exemptions, if any, of FRS 101 used in the preparation of these financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Qualifying third party indemnity provisions

Babcock International Group PLC provides protections for directors of companies within the Group against personal financial exposure they may incur in their capacity as such. These include qualifying third party indemnity provisions (as defined by Companies Act 2006) for the benefit of members of Babcock International Group PLC, including, where applicable, in their capacity as a director of the Company and other companies within the Group. These indemnities came into force in 2014 and remain in force.

Disclosure of information to auditors

Each director, as at the date of this report, has confirmed that in so far as they are aware there is no relevant audit information of which the Company's auditors are unaware, and they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of this information.

By order of the board



I Urquhart
Director

13 September 2016

Babcock Corporate Services Limited

Independent auditors' report to the members of Babcock Corporate Services Limited

Report on the financial statements

Our opinion

In our opinion, Babcock Corporate Services Limited's financial statements (the "financial statements"):

- give a true and fair view of the state of the Company's affairs as at 31 March 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report, comprise:

- the Balance sheet as at 31 March 2016;
- the Income statement and the Statement of comprehensive income for the year then ended;
- the Statement of changes in equity for the year then ended;
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law (United Kingdom Generally Accepted Accounting Practice).

In applying the financial reporting framework, the directors have made a number of subjective judgments, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report and Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Other matters on which we are required to report by exception

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified any material misstatements in the Strategic Report and the Directors' Report. We have nothing to report in this respect.

Independent auditors' report to the members of Babcock Corporate Services Limited
(continued)

Adequacy of accounting records and information and explanations received

Under the companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Statement of directors' responsibilities on page 4 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland)) ("ISAs (UK and Ireland)"). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

This includes an assessment of:

- whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

Independent auditors' report to the members of Babcock Corporate Services Limited
(continued)

What an audit of financial statements involves *(continued)*

We primarily focus our work in these areas by assessing the directors' judgments against available evidence, forming our own judgments, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report. With respect to the Strategic Report and Directors' Report, we consider whether those reports include the disclosures required by applicable legal requirements.



John Baker (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom

12 September 2016

Babcock Corporate Services Limited**Income statement***for the year ended 31 March 2016*

	Note	2016 £000	2015 £000
Revenue	4	49,701	45,703
Cost of sales		-	-
Gross profit		49,701	45,703
Administration expenses		(48,882)	(44,186)
Operating profit	6	819	1,517
Income from shares in group undertakings		-	-
Profit on ordinary activities before interest and taxation		819	1,517
Finance income	5	2,655	2,747
Finance costs	5	(1,093)	(714)
Other finance income / (costs) - pensions	20	19	(22)
Profit on ordinary activities before income tax		2,400	3,528
Income tax (expense) / credit	9	(709)	77
Profit for the year		1,691	3,605

All of the above results derive from continuing operations.

Statement of comprehensive Income*for the year ended 31 March 2016*

	Note	2016 £000	2015 £000
Profit for the year		1,691	3,605
Other comprehensive income:			
<i>Items that will not be subsequently reclassified to income statement:</i>			
(Loss) / gain on remeasurement of net defined benefit obligation	20	(758)	917
Tax on net defined benefit obligation	15	152	(193)
Impact of change in UK tax rate	15	(6)	10
Total comprehensive income for the year		1,079	4,339

Babcock Corporate Services Limited

Balance sheet

as at 31 March 2016

	Note	2016 £000	2015 £000
Non-current assets			
Intangible assets	10	36,017	20,682
Tangible fixed assets	11	10,594	9,426
		<u>46,611</u>	<u>30,108</u>
Current assets			
Trade and other receivables	12	269,055	266,254
Cash and cash equivalents		-	-
		<u>269,055</u>	<u>266,254</u>
Trade and other payables – amounts falling due within one year	13	<u>(104,931)</u>	<u>(87,414)</u>
Net current assets		<u>164,124</u>	<u>178,840</u>
Total assets less current liabilities		<u>210,735</u>	<u>208,948</u>
Provision for liabilities	14	(1,271)	(1,271)
Gross pension (liabilities) / asset	20	<u>(295)</u>	<u>413</u>
Net assets		<u>209,169</u>	<u>208,090</u>
Equity			
Called up share capital	16	181,369	181,369
Share premium		14,510	14,510
Retained earnings		<u>13,290</u>	<u>12,211</u>
Total shareholders' funds		<u>209,169</u>	<u>208,090</u>

The notes on pages 12-34 are an integral part of these financial statements.

The financial statements on pages 9-34 were approved by the board of directors and signed on its behalf by:


I Urquhart
Director

13 September 2016

Statement of changes in equity
for the year ended 31 March 2016

	Called-up share capital £000	Share premium £000	Retained earnings £000	Total £000
Balance at 1 April 2014	181,369	14,510	7,872	203,751
Profit for the year	-	-	3,605	3,605
Other comprehensive income	-	-	734	734
Balance at 31 March 2015	181,369	14,510	12,211	208,090
Profit for the year	-	-	1,691	1,691
Other comprehensive (loss)/	-	-	(612)	(612)
Balance at 31 March 2016	181,369	14,510	13,290	209,169

Notes to the financial statements**1 General information**

Babcock Corporate Services Limited is a private company which is incorporated and domiciled in the UK. The address of the registered Office is 33 Wigmore Street, London W1U 1QX.

2 Summary of significant accounting policies

The principle accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented. The Company has adopted FRS 101 in these financial statements. Details of the transition to FRS 101 are disclosed in note 22.

Basis of preparation

The financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). These financial statements are prepared on a going concern basis, under the historical cost convention. The financial statements are prepared in sterling which is the functional currency of the Company and rounded to the nearest £'000.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

The Company is a wholly owned subsidiary of Vosper Thornycroft (UK) Limited and of its ultimate parent, Babcock International Group PLC. It is included in the consolidated financial statements of Babcock International Group PLC which are publicly available.

The following exemptions from the requirements of IFRS have been applied in the preparation of these financial statements, in accordance with FRS 101:

- a) Paragraphs 45(b) and 46 to 52 of IFRS 2, 'Share based payments'
- b) IFRS 7, 'Financial instruments: Disclosures'
- c) Paragraphs 91 to 99 of IFRS 13 'Fair value measurement' (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- d) Paragraph 38 of IAS 1, 'Presentation of financial statements' comparative information in respect of:
 - paragraph 79(a) (iv) of IAS 1 Share capital and reserves;
 - paragraph 73(e) of IAS 16 Property, plant and equipment; and
 - paragraph 118(e) of IAS 38 Intangible assets (reconciliations between the carrying amount at the beginning and end of the period)
- e) The following paragraphs of IAS 1, 'Presentation of financial statements':
 - 10(d), 10(f), 16, 38, 40, 111, and 134-136
- f) IAS 7, 'Statement of cash flows'
- g) Paragraph 30 and 31 of IAS 8 'Accounting policies, changes in accounting estimates and errors'
- h) Paragraph 17 of IAS 24, 'Related party transactions' in respect of key management compensation
- i) The requirements of IAS 24, 'Related party disclosures' to disclose related party transactions entered into between two or more members of a group.

Notes to the financial statements**Summary of significant accounting policies** *(continued)*

After making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors consider it appropriate to continue to adopt the going concern basis in preparing these financial statements.

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(a) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be reliably measured and recovery of consideration is considered probable.

(b) Sale of services

Revenue from services rendered is recognised by reference to the stage of completion of the transaction. The provision of services over a long-term period are accounted for under the principles of construction contracts. In a limited number of contracts where performance and revenue are measured annually the revenue and costs are similarly recognised over the course of the year.

Intangible assets

Intangible assets are stated at cost less accumulated amortisation. The intangible assets are amortised on a straight line basis as follows:

Computer software

Computer software includes software licences acquired plus the costs incurred in bringing the software into use and is shown at cost less accumulated amortisation and is amortised over its expected useful lives of between three and ten years.

Property, plant and equipment

Property, plant and equipment is shown at cost less subsequent depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is provided on a straight-line basis to write off the cost of PPE over the estimated useful lives to their estimated residual value (reassessed at each balance sheet date) at the following annual rates:

Leasehold property	Lease term
Plant and equipment	6.6% to 33.3%

PPE is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds the higher of an asset's fair value less cost to sell or value in use.

Trade receivables

Trade receivables are stated at their cost less provision for bad debts. A provision for bad debt is established when there is objective evidence that the collection of the debt is no longer probable.

Notes to the financial statements

2 Summary of significant accounting policies *(continued)*

Taxation

(a) Current income tax

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted, or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Tax is recognised in the income statement except to the extent that it relates to items recognised directly in either other comprehensive income or in equity.

Pensions costs and other post-retirement benefits

The Company participates in a defined benefit scheme that shares risks between entities under common control. The defined benefit scheme defines the amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The cost of providing benefits is determined using the projected unit credit actuarial valuation method. The total service cost and associated administration costs of the pension scheme are charged to operating profit in the entities who participate in the scheme. In addition, a retirement benefit interest charge on the net pension deficit is charged to the income statement as a finance cost. Actuarial gains and losses are recognised directly in equity through the statement of comprehensive income.

The fair value of plan assets, are measured in accordance with FRS 101 fair value hierarchy and includes the use of appropriate valuation techniques.

The extent to which the Company recognises its share of the income statement charge, the assets and liabilities of the scheme, and the actuarial gain or loss is determined by the proportion of active members of the scheme that it employs.

The scheme's liability is the present value of the defined benefit obligation at the end of the reporting date less the fair value of the plan assets at the reporting date.

The Company participates in a defined contribution scheme. Obligations for contributions to the defined contribution pension plan are recognised as an expense in the income statement.

Notes to the financial statements**2 Summary of significant accounting policies *(continued)*****Foreign currencies**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the local currency at the year end exchange rates.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at exchange rates ruling at the balance sheet date of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Operating leases

Operating lease payments are recognised as an expense in the income statement on a straight-line basis. A provision is made where the operating leases are deemed to be onerous.

Provisions for liabilities

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and the amount has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at an appropriate discount rate.

A provision for restructuring is recognised when the Company has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been publicly announced. Future operating costs are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. A provision for warranties is recognised on completed contracts and disposals when there is a realistic expectation of the Company incurring further costs.

A provision for employee benefits is recognised when there is a realistic expectation of the liability.

Notes to the financial statements**3 Critical accounting estimates and judgements**

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The following judgements (apart from those involving estimates) have had the most significant effect on amounts recognised in the financial statements.

Defined benefit pension scheme

The Company has an obligation to pay pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including: life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends. See note 20 for the disclosures of the defined benefit pension scheme.

4 Revenue

Revenue is wholly attributable to the principal activities of the Company and arises as follows:

	2016 £000	2015 £000
	IT	IT
	Services	Services
By area of activity:		
Sales of goods	-	-
Rendering of services	49,701	45,703
	49,701	45,703
	2016 £000	2015 £000
By geographical area:		
United Kingdom	48,983	45,473
Europe	278	-
Australia	440	230
	49,701	45,703

Babcock Corporate Services Limited

Notes to the financial statements

5 Finance income and costs

	2016 £000	2015 £000
Finance income:		
Bank interest	-	104
Exchange gain	55	56
Loan interest receivable from group undertakings	2,600	2,587
	<u>2,655</u>	<u>2,747</u>
Finance expenses:		
Bank interest	293	-
Exchange loss	87	29
Loan interest payable to group undertakings	713	685
	<u>1,093</u>	<u>714</u>

6 Operating profit

Operating profit is stated after charging / (crediting):

	2016 £000	2015 £000
Depreciation of tangible fixed assets	4,750	4,961
Amortisation of intangible asses	3,961	3,833
Operating lease charges – land and buildings	303	303
Operating lease charges – plant and machinery	8	6

Auditors' remuneration has been borne by another group entity.

Fees paid to the Company's auditors, PricewaterhouseCoopers LLP, and its associates, for services other than statutory audit of the Company, are disclosed on a consolidated basis in the financial statements of the ultimate parent undertaking, Babcock International Group PLC. The group accounts are required to comply with the statutory disclosure requirements.

Notes to the financial statements**7 Staff costs**

The average monthly number of employees (including directors) employed by the Company during the year was as follows:

	2016 Number	2015 Number
By activity:		
Management and administration	218	202
	218	202

Their aggregate remuneration comprised:

	2016 £000	2015 £000
Wages and salaries	9,082	8,375
Social security costs	931	898
Other pension costs (note 20)	853	811
	10,866	10,084

Included in wages and salaries is a total expense of share-based payments of £nil (2015: £nil).

Included in other pension costs are £199,000 (2015: £161,000) in respect of the defined benefit schemes and £654,000 (2015: £650,000) in respect of the defined contribution scheme.

The employment costs above include those of employees providing management services to other group companies, as well as staff seconded to other group companies. These are recharged to those business entities.

Babcock Corporate Services Limited

Notes to the financial statements

8 Directors' remuneration

The emoluments of the directors, including pension contributions, paid by any company in respect of services provided to this Company were as follows:

	2016 £000	2015 £000
The remuneration of the directors which was paid by the Company was as follows:		
Emoluments (including benefits in-kind)	-	-
Defined contribution pension scheme	-	-
	-	-

All of the directors of the Company are remunerated by other Babcock Group companies. It is not possible to make an accurate apportionment of these directors' emoluments relating to services provided to the Company and as such no disclosure of emoluments received by these directors has been made in these financial statements. No recharge is made for costs borne by the Company in relation to services performed by the directors in relation to other Babcock Group companies.

9 Income tax

Tax expense included in income statement

	2016 £000	2015 £000
Current tax:		
UK Corporation tax on profits for the year	477	-
Current tax charge for the year	477	-
Deferred tax:		
Origination and reversal of timing differences	3	34
Adjustment in respect of prior years	50	(110)
Impact of change in UK tax rate	179	(1)
Total deferred tax charge / (credit) (note 15)	232	(77)
Tax on profit on ordinary activities	709	(77)

Babcock Corporate Services Limited

Notes to the financial statements

9 Income tax (continued)

Tax expense / (income) included in other comprehensive income

Current tax	-	-
Deferred tax:		
- Origination and reversal of temporary differences	(152)	193
- Impact of change in tax rates	6	(10)
Tax (income) / expense included in other comprehensive income	(146)	183

Tax expense for the year is higher (2015: lower) than the standard effective rate of corporation tax in the UK for the year ended 31 March 2016 of 20% (2015: 21%). The differences are explained below:

	2016 £000	2015 £000
Profit on ordinary activities before taxation	2,400	3,528
Profit on ordinary activities multiplied by standard UK corporation tax rate of 20% (2015: 21%)	480	741
Effects of:		
Group relief claimed for nil consideration	-	(707)
Adjustments in respect of deferred tax for prior years	50	(110)
Impact of change in UK tax rate	179	(1)
Total tax charge / (credit) for the year	709	(77)

In the 2015 Budget, it was announced that the UK corporation tax rate will reduce from 20% to 19% from April 2017. It was further announced in the 2016 Budget that it will be further reduced to 18% from April 2020. As a result of this change, UK deferred tax balances have been re-measured at 18% as this is the tax rate that will apply on reversal.

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Notes to the financial statements

10 Intangible assets

	Software £000
Cost	
At 1 April 2015	35,785
Additions	<u>19,296</u>
At 31 March 2016	<u>55,081</u>
 Accumulated amortisation and impairment	
At 1 April 2015	15,103
Amortisation of software	<u>3,961</u>
At 31 March 2016	<u>19,064</u>
 Net book value	
At 31 March 2016	<u>36,017</u>
At 31 March 2015	<u>20,682</u>

Computer software includes software licences acquired plus the costs incurred in bringing the software into use and is shown at cost less accumulated amortisation and is amortised over its expected useful lives of between three and ten years.

Intangible assets amortisation is recorded in administrative expenses in the income statement.

Babcock Corporate Services Limited

Notes to the financial statements

11 Tangible fixed assets

	Fixtures, Fittings & Equipment £000
Cost	
At 1 April 2015	18,707
Additions	5,918
Disposals	(3,097)
At 31 March 2016	<u>21,528</u>
Accumulated depreciation	
At 1 April 2015	9,281
Charge for the year	4,750
Disposals	(3,097)
At 31 March 2016	<u>10,934</u>
Net book value	
At 31 March 2016	<u>10,594</u>
At 31 March 2015	<u>9,426</u>

Babcock Corporate Services Limited

Notes to the financial statements

12 Trade and other receivables

	2016 £000	2015 £000
Amounts falling due within one year:		
Trade receivables	-	118
Amounts owed by group undertakings	24,889	25,866
Amounts owed by joint venture undertakings	26	15
Deferred tax asset (note 15)	1,665	1,751
Other receivables	1,293	146
Prepayments and accrued income	11,230	8,406
	39,103	36,302
Amounts due after more than one year:		
Amounts owed by group undertakings	229,952	229,952
	269,055	266,254

Amounts owed by group undertakings are unsecured.

There are four major loans (2015: four) to group companies:

- A loan of £11,000,000 (2015: £11,000,000) is repayable on demand, the interest rate is six month LIBOR plus fifty basis points.
- A loan of £227,467,000 (2015: £227,467,000) is repayable after more than one year and bears interest at a rate of six month LIBOR plus one hundred and thirteen basis points.
- Two loans totalling £5,985,000 (2015: six loans totalling £5,985,000) are repayable on demand, with no interest charge.

Trade receivables are stated after provisions for impairment of £1,445,000 (2015: £1,435,000).

13 Trade and other payables

	2016 £000	2015 £000
Amounts falling due within one year:		
Bank overdraft	28,248	15,789
Trade creditors	7,147	2,433
Amounts owed to parent and group undertakings	62,107	61,071
Taxation and social security	291	379
UK corporation tax payable	2,069	1,592
Other payables	62	225
Accruals and deferred income	5,007	5,925
	104,931	87,414

Notes to the financial statements**13 Trade and other payables** *(continued)*

With the exception of one group loan, amounts owed to parent and group undertakings are unsecured, interest free, and repayable on demand. Within the group loans is one loan (2015: one) of £15m (2015: £15m) which accrues interest at 6 month Libor plus 400 basis points, payable every six months.

The Company has access to the Babcock International Group PLC overdraft facility. The Company along with fellow group undertakings has provided cross-guarantees in relation to this facility (note 18(a)).

14 Provisions for liabilities

	Reorganisation provision £000	Dilapidations provision £000	Total £000
At 1 April 2015	889	382	1,271
Charged to the income statement	-	-	-
Released to the income statement	-	-	-
Utilised in the year	-	-	-
At 31 March 2016	889	382	1,271

Dilapidations provisions

Dilapidations provisions relate to commitments in respect of leased property. These are based on the assessment of future costs and are assessed with reference to past experience. Dilapidations provisions have not been discounted. The provisions are expected to be fully utilised during the year ending 31 March 2017.

Reorganisation costs

The opening balance relates to the centralisation of back office functions following a restructure. The remaining balance is expected to be utilised during the year ending 31 March 2017.

Notes to the financial statements**15 Deferred taxation**

The major components of the deferred tax liabilities and deferred tax asset are recorded as follows:

	Accelerated capital allowances £000	Other £000	Total £000
Deferred tax assets			
At 1 April 2014	1,534	323	1,857
- Credited to the income statement	58	19	77
- Charged directly to other comprehensive income	-	(183)	(183)
At 31 March 2015	1,592	159	1,751
- Charged to the income statement	(148)	(84)	(232)
- Credited to other comprehensive income	-	146	146
At 31 March 2016	1,444	221	1,665

16 Share capital

	2016 £000	2015 £000
Allotted and fully paid		
181,369,347 ordinary shares of £1 each (2015: 181,369,347)	181,369	181,369

17 Dividends

Dividends declared and paid were £nil (2015: £nil). There are no plans for a final dividend.

Notes to the financial statements**18 Guarantees and financial commitments****a) Contingent liabilities**

At the year end the Company had guaranteed or had joint and several liability for drawn Babcock International Group PLC bank facilities of £nil (2015: £nil) provided to certain group companies. In addition, the Company at the year end had joint and several liabilities for the drawn bank overdraft facilities of other group companies of £nil (2015: £nil).

No securities have been provided by the Company in relation to these contingent liabilities. There is no current expectation that these contingent liabilities will crystallise.

b) Operating lease commitments

At 31 March 2016, the Company had future minimum rental payable under non-cancellable operating leases as follows:

	2016 Land and buildings £000	2016 Other £000	2015 Land and buildings £000	2015 Other £000
Future minimum rentals payable under non-cancellable operating leases:				
- within one year	227	9	303	6
- between two and five years	-	9	227	8
- after five years	-	-	-	-
	227	18	530	14

The entity leases offices under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights. The entity also leases plant and machinery under non-cancellable operating leases.

c) Capital Commitments

At 31 March 2016 the Company had capital commitments of £nil (2015: £nil).

Babcock Corporate Services Limited

Notes to the financial statements

19 Related party disclosures

The Company has taken advantage of the exemptions within FRS 101 not to disclose transactions and balances with Babcock International Group PLC and its wholly owned subsidiaries, on the grounds that the Company itself is a wholly owned subsidiary of Babcock International Group PLC, for which the consolidated financial statements are publicly available.

During the year the Company also entered into transactions in the ordinary course of business with Ascent Flight Training (Management) Limited, Babcock 4S Limited, Babcock Dyncorp Limited and Mouchel Babcock Education Limited, in which Babcock International Group PLC hold a 50%, 80%, 56%, 50% shareholding respectively.

Transactions entered into and trading balances outstanding at 31 March 2016 are as follows:

	Sales to related party £000	Purchases from related party £000	Amounts owed by related party £000	Amounts owed to related party £000
Related party				
Ascent Flight Training (Management) Limited	224	-	17	-
Babcock 4S Limited	27	-	6	-
Babcock Dyncorp Limited	39	-	14	-
Mouchel Babcock Education Limited	80	-	8	-

Transactions entered into and trading balances outstanding at 31 March 2015 are as follows:

	Sales to related party £000	Purchases from related party £000	Amounts owed by related party £000	Amounts owed to related party £000
Related party				
Ascent Flight Training (Management) Limited	204	-	-	-
Babcock 4S Limited	140	-	15	-
Babcock Dyncorp Limited	15	-	-	-
Mouchel Babcock Education Limited	81	-	15	-

All dealings with related parties noted above arise in the normal course of business and are subject to normal terms and conditions.

Notes to the financial statements**20 Pension commitments**

The Company accounts for pension costs in accordance with IAS 19. The Company contributes to a defined contribution scheme in the UK in respect of a number of its employees as a member of the Babcock International Group Pension Scheme. The Company's is severally liable, along with the other participating employers, for the assets and liabilities of the scheme. The allocation of the assets and liabilities of the scheme and which has been recognised in these financial statements are detailed in this note.

The nature of the scheme is that the employees contribute to the schemes with the employers paying the balance of the cost required. The contributions required and the assessment of the assets and the liabilities that have accrued to members and any deficit recovery payments required are agreed by the participating employer companies with the trustees who are advised by an independent, qualified actuary.

The key risks relate primarily to longevity, the expected inflation rate in the future which impacts on pension increases and indirectly salary increases and the discount rate used to value the liabilities. The schemes have mitigated some of these risks by taking out longevity swaps for approximately 54% of the obligations in respect of pensioners and their spouses, through a common investment committee have significantly hedged the interest rate and inflation risk through derivative instruments and introduced benefit changes impacting future service benefits which included capping of pensionable salaries, capping pension increases, increased normal retirement age in line with state pension ages and increased the level of member contributions.

The scheme is funded by payments to legally separate trustee-administered funds. The trustees of the scheme are required by law to act in the best interests of the scheme's members. In addition to determining future contribution requirements (with the agreement of the participating employers), the trustees are responsible for setting the schemes' investment strategy (subject to consultation). The scheme has an independent trustee and member nominated trustees. The scheme is subject to regulation under the funding regime set out in Part III of the Pensions Act 2004.

BIG Pension Scheme

The IAS 19 valuation has been updated at 31 March 2016 by an independent qualified actuary using revised assumptions that are consistent with the requirements of IAS 19. The date of the last full actuarial valuation was 1 April 2013. The major assumptions used for the IAS 19 valuation were:

	2016 %	2015 %	2014 %
Major assumptions			
Rate of increase in salaries	2.2	2.2	2.4
Rate of increase in pension payment	2.1	2.8	3.0
Discount rate	3.5	3.4	4.5
Inflation	1.9	1.9	2.1

Babcock Corporate Services Limited

Notes to the financial statements

20 Pension commitments (*continued*)

The expected total employer contributions to be made by participating employers to the scheme in 2016/17 are £18.7m. The future service rate is 21.9%. The above level of funding is expected to continue until the next actuarial valuation, with valuations carried out every 3 years. Included in employer contributions of £18.7m is £6.6m of deficit recovery payments. The Company's share of this is allocated based on the percentage of active members of the scheme that it employs.

The mortality assumptions used were:

	2016 Years	2015 Years	2014 Years
Life expectancy from age 65 (male age 65)	22.9	23.0	22.8
Life expectancy from age 65 (male age 45)	24.5	24.7	24.3

The changes to the Babcock International Group PLC balance sheet at March 2016 and the changes to the Babcock International Group PLC income statement for the year to March 2017, if the assumptions were sensitised by the amounts below, would be:

	Defined benefit obligations 2016 £000	Income statement 2017 £000
Initial assumptions	1,205,800	12,900
Discount rate assumptions increased by 0.5%	(87,800)	(4,400)
Discount rate assumptions decreased by 0.5%	87,800	3,500
Inflation rate assumptions increased by 0.5%	49,900	2,500
Inflation rate assumptions decreased by 0.5%	(46,300)	(2,200)
Total life expectancy increased by half a year	19,100	800
Total life expectancy decreased by half a year	(19,100)	(700)
Salary increase assumptions increased by 0.5%	9,400	700
Salary increase assumptions decreased by 0.5%	(9,400)	(600)

The weighted average duration of cash flows (years) was 16.

Notes to the financial statements**20 Pension commitments (*continued*)**

The fair value of the assets, the present value of the liabilities and the expected rates of return of the scheme at the balance sheet date of 31 March 2016 were:

	2016 £000	2015 £000
Fair value of plan of assets		
Equities	285,320	264,900
Property	95,937	33,567
Absolute return and multi strategy funds	1,588	7,374
Bonds	426,204	402,307
Matching assets	423,129	584,784
Active position on longevity swaps	(50,692)	(39,947)
Total assets	1,181,486	1,252,985
Present market value of liabilities - funded	(1,205,869)	(1,219,048)
Gross pension surplus / (deficit)	(24,383)	33,937

All the assets of the scheme are quoted except for the longevity swaps.

The scheme does not invest directly in assets or share of Babcock International Group PLC.

The longevity swaps have been valued, in 2016, in line with assumptions that are consistent with the requirements of IFRS 13. The increasing maturity of the longevity swaps allows the estimate of value in line with IFRS 13 rather than the reimbursement rights approach to valuation adopted in 2015.

Analysis of amount charged to the income statement in Babcock International Group PLC	2016 £000	2015 £000
Current service cost	11,712	11,301
Incurred expenses	2,258	1,922
Total included within operating profit	13,970	13,223
Net interest cost	(1,311)	1,783
Total charged to the income statement	12,659	15,006

The amounts charged to the income statement in these financial statements, based on the Company's allocation of the total Babcock International Group Plc charge, included £199,000 for service cost (2015: £161,000), and net interest income of £19,000 (2015: net cost £22,000).

Notes to the financial statements

20 Pension commitments *(continued)*

Analysis of amount included in Babcock International Group Plc statement of comprehensive income ("SOCl")	2016 £000	2015 £000
Actuarial gain / (loss) recognised in the SOCl	21,071	(156,484)
Experience gains/(losses)	(80,237)	247,122
Other gains/(losses)	(9,387)	(22,707)
	(68,553)	67,931

The actuarial loss recognised in the SOCl in these financial statements, based on the Company's allocation of the total Babcock International Group Plc movement, was £758,000 (2015: gain £917,000).

The equity investments and bonds are valued at bid price.

	2016 £000	2015 £000
Reconciliation of present value of scheme assets in Babcock International Group PLC		
At 1 April 2015	1,292,931	1,050,052
Interest cost	43,539	46,825
Employee contributions	411	515
Employer contributions	22,892	29,296
Benefits paid	(62,146)	(57,067)
Actuarial loss / (gain)	(65,450)	223,310
At 31 March 2016	1,232,177	1,292,931

	2016 £000	2015 £000
Reconciliation of present value of scheme liabilities		
At 1 April 2015	1,219,048	1,081,839
Service cost	11,712	11,301
Incurred expenses	2,258	1,922
Interest on liabilities	40,870	47,866
Employee contributions	411	515
Actuarial (gain) / loss – demographics	(15,784)	162,558
Actuarial (gain) / loss – financial	(5,287)	(6,074)
Experience (gain) / losses	14,787	(23,812)
Benefits paid	62,146	(57,067)
At 31 March 2016	1,205,869	1,219,048

Notes to the financial statements

21 Ultimate parent undertaking

The Company's immediate parent company is Vosper Thornycroft (UK) Limited, a company registered in England and Wales. The Company's ultimate parent undertaking and controlling party is Babcock International Group PLC, a company registered in England and Wales. The only Group in which the results of the Company are consolidated is that headed by Babcock International Group PLC.

Copies of Babcock International Group PLC Financial Statements are available from the following address:

The Company Secretary
Babcock International Group PLC
33 Wigmore Street
London W1U 1QX

22 Transition to FRS 101

This is the first year that the Company has presented its results under FRS 101. The last financial statements under the UK GAAP were for the year ended 31st March 2015. The date of transition to FRS 101 was 1 April 2014. Set out below are the changes in accounting policies which reconcile profit for the financial year ended 31st March 2015 and the total equity as at 1st April 2014 and 31st March 2015 between UK GAAP as previously reported and FRS 101.

On transition to FRS 101, the Company has applied the requirements of paragraphs 6-33 of IFRS 1, 'First time adoption of International Financial Reporting Standards'.

Notes to the financial statements**22 Transition to FRS 101 (continued)**

Profit for the financial year		2015 £000
UK GAAP - As previously reported		3,534
Defined benefit pension scheme	A 82	
Lease incentives	B <u>6</u>	
Total adjustment to profit before tax for the financial year	88	
Deferred tax impact of adjustments:		
- Defined benefit pension scheme	<u>(17)</u>	
Total adjustment to tax expense	(17)	
Total adjustment to profit for the financial year		71
FRS 101		<u>3,605</u>

Other comprehensive income		2015 £000
UK GAAP – As previously reported		-
Defined benefit pension scheme	A 917	
Deferred tax impact of adjustments		
- Defined benefit pension scheme	<u>(183)</u>	
FRS 101		<u>734</u>

Notes to the financial statements**22 Transition to FRS 101 (continued)****A Defined Benefit Pension schemes**

The Company is a member of a group defined benefit pension plan that shares risks between entities under common control. Under previous UK GAAP this scheme was accounted for as a defined contribution scheme. Under FRS 101 the Company recognises its share of the scheme's net surplus/deficit together with its share of the service costs and interest charge in the income statement. The Company's share is calculated based on the proportion of active members of the scheme that it employs.

At 1 April 2014 the company's share of the net deficit of the plan was £587,000, and at 31 March 2015 the company's share of the net surplus of the plan was £413,000. This is the difference between the contributions paid and the defined benefit accounting recorded in profit and loss. The amount recognised in other comprehensive income during the year ended 31 March 2015 was £917,000 and relates to the actuarial movement during the year. The reduced expense recognised in the income statement under FRS 101 is £82,000.

B Lease Incentives

The Company has entered in to operating leases for office space which at inception included a rent free period. Under UK GAAP this rent free period was amortised up to the first break period in the lease, whereas FRS101 requires the rent free incentive to be spread across the entire lease.

C Other Adjustments arising on transition to FRS 101

In addition to the transition adjustments identified above which affect profit for the financial year the following adjustments have arisen which have had no effect on net equity or income statement but which have affected the presentation of these items on the Balance sheet. The main item is:

Computer software, with a net book value of £20,682,000 at 1 April 2015, has been reclassified from tangible to intangible assets as required under FRS 101. This has no effect on the Company's net assets nor on the profit for the year

Total equity	31 March 2015 £000	1 April 2014 £000
UK GAAP – As previously reported	207,771	204,237
Defined benefit pension scheme	413	(587)
Rent free period for operating leases	(11)	(16)
Deferred tax impact of adjustments		
- Defined benefit pension scheme	(83)	117
FRS 101	208,090	203,751